



**Dora**  
Department of Regulatory Agencies

**MARKET CONDUCT EXAMINATION REPORT**  
**Dated May 6, 2013**

**COVERING THE TIME PERIOD OF JANUARY 1, 2012 THROUGH  
DECEMBER 31, 2012**

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**STATE FARM FIRE AND CASUALTY COMPANY**

**One State Farm Plaza  
Bloomington, IL 61710**

**Examination Conducted at:  
1555 Promontory Circle  
Greeley, CO 80634**

**NAIC Company Code: 25143  
NAIC Group Code: 176**



**CONDUCTED BY:**

**COLORADO DIVISION OF INSURANCE**

**STATE FARM FIRE AND CASUALTY COMPANY**

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**Examination Performed by:**

**State Market Conduct Examiner**

**Jeffory A. Olson, CIE, MCM, FLMI, AIRC, ALHC**  
**Examiner-in-Charge**

**and**

**Independent Contract Examiners with**  
**Regulatory Consultants, Inc.**

**Jimmy R. Potts, FLMI, CLU, AIRC, CIE, MCM**  
**Lead On-Site Examiner**

**Jay Matthew Alley, JD**

**Edward M. Garrison, MCM**

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**COMPANY PROFILE**

**The following is taken directly from written documentation provided by State Farm Fire and Casualty Company and has not been independently verified by the Division of Insurance:**

State Farm Fire Insurance Company was incorporated in June of 1935; State Farm Casualty Company was incorporated in July of 1944. In June of 1950 the two companies merged, forming State Farm Fire and Casualty Company. State Farm Fire Insurance Company was issued a certificate of authority from the Colorado regulator on September 9, 1937. State Farm Fire and Casualty Company is a stock company, wholly owned by State Farm Mutual Automobile Insurance Company.

The chairman of the board and chief executive officer of State Farm Mutual Automobile Insurance Company is Edward B. Rust Jr. The current board consists of 12 members, including Mr. Rust.

State Farm Fire and Casualty is authorized to write homeowners insurance in all 50 states and in Canada, and it markets insurance through the same direct agency force as State Farm Mutual. The NAIC Group Code is 0176, and the Company Number is 25143.

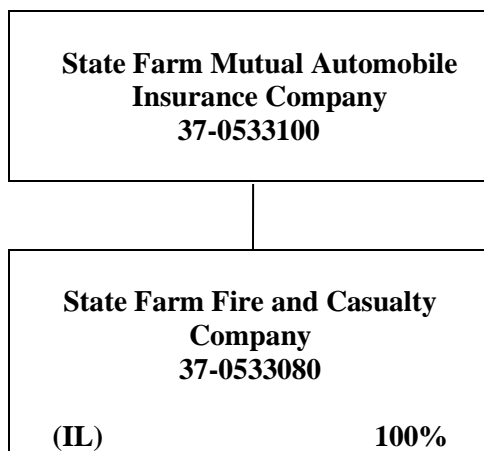
Colorado underwriting and claim operations are administered largely from the company's Great Western Zone, with primary offices in Greeley, Colorado, and Tempe, Arizona. The more complex claims are handled through field offices throughout the state. The company adjusts claims almost exclusively through company adjusters. However, in instances of higher claim volume like catastrophe losses, independent adjusters are used to supplement company adjusters.

Premium and Market Share as of December 31, 2011\*:

|  |           |
|--|-----------|
| Total Property and Casualty Written Premium (\$1,000s) | \$332,163 |
| Market Share   | 23.4%     |

\*As shown in the 2011 Edition of the Colorado Insurance Industry Statistical Report

**Organizational Chart**



**PURPOSE AND SCOPE**

A state market conduct examiner with the Colorado Division of Insurance (“Division”), who was assisted by independent contract examiners, reviewed certain business practices of State Farm Fire and Casualty Company (“State Farm Fire” or “Company”). This market conduct examination (“MCE”) was performed in accordance with Colorado insurance laws, §§ 10-1-203, 10-1-204, and 10-1-205, C.R.S., as well as § 10-3-1106, C.R.S., which empower the Commissioner of Insurance (“Commissioner”) to examine any entity engaged in the business of insurance. All work product developed in producing this report is the sole property of the Division.

The purpose of the examination was to determine State Farm Fire’s compliance with Colorado insurance laws related to homeowners insurance business in Colorado. Examination information contained in this report will serve only this purpose, except as otherwise provided by law pursuant to §§ 10-1-204 and 10-1-205, C.R.S. The findings and conclusions, including the Final Agency Order, arising out of this examination shall be a public record.

Examiners conducted the examination in accordance with procedures developed by the Division, based on model procedures developed by the National Association of Insurance Commissioners (“NAIC”). They relied primarily on records and materials maintained and/or provided by the Company. This market conduct examination covered the period from January 1, 2012, through December 31, 2012.

The examination included review of the following:

- Company Operations and Management
- Complaints
- Producers
- Forms
- Rates
- New Business Applications and Renewals
- Cancellations, Declinations and Non-renewals
- Claims

The examination report is a report written by exception. References to additional practices, procedures, or files that did not contain any improprieties were omitted. Based on review of these areas, comment forms were prepared by the examiners identifying any concerns and/or discrepancies and provided to State Farm Fire. The comment forms contained a section that permitted State Farm Fire to submit a written response to the examiners’ comments.

Examination findings may result in administrative action by the Division. The examiners may not have discovered all unacceptable or non-complying practices of State Farm Fire. Failure to identify specific Company practices does not constitute acceptance of such practices. This report should not be construed to either endorse or discredit any insurance company or insurance product.

## **EXAMINATION METHODOLOGY**

The examiners reviewed the Company's business practices to determine compliance with Colorado insurance laws. The examiners reviewed all relevant statutes and regulations pertaining to homeowners insurance.

### **Sampling Methodology**

The examiners selected all files on a random basis where a sample of a larger population was taken. Otherwise, the examiners reviewed the entire population of files. Per statute, the examiners used the most recent version (2012) of the NAIC Market Regulation Handbook ("Handbook"). The examiners utilized the random number generator available in Excel to identify files to be selected for review.

The samples taken and reviewed for this examination are discussed under each individual area of review outlined below.

An error tolerance level of seven percent (7%) for claims and ten percent (10%) for other samples was established per the Handbook to determine reportable exceptions.

An error tolerance of plus or minus ten dollars (\$10.00) was allowed in most cases where monetary values were involved. However, in cases where monetary values were generated by computer or other systemic methodology, a zero dollar (\$0) tolerance was applied to identify possible system errors.

### **Prior Audits and Examinations**

State Farm Fire's most recent market conduct examination by the Division prior to this examination was completed in 2003 and covered an exam period of January 1, 2002 through January 31, 2003. The examination was focused solely on a review of Division complaints.

### **Company Operations and Management**

The examiners reviewed Company management and administrative controls, the Certificate of Authority, record retention, underwriting and claims guidelines/procedures, anti-fraud plan, privacy notices and timely cooperation with the examination process.

### **Producers**

The examiners reviewed the licensing status of the submitting producers for homeowner's policies written and applications declined during the period of the examination and included in the samples, for compliance with the applicable Colorado statutes and regulations. The examiners reviewed a sample of terminated producers to determine if notice was provided to the producer of their termination of authority to solicit insurance business.

### **Contract Forms**

The examiners reviewed the following Homeowners contract forms for compliance with Colorado insurance law:

Form:

Number:

|   |              |
|---|--------------|
| Homeowners Policy                             | Form FP-7955 |
| Homeowners Policy Endorsement (Colorado)      | Form FE-3425 |
| Renewal Certificate                           | 138-3076 f.8 |
| NS Lender's Loss Payable End                  | 4388BFU NS   |
| Amendatory End (CO)                           | FE-2206      |
| Identity Restoration Coverage End             | FE-3301      |
| Temporary Rental End                          | FE-3368      |
| Back-up of Sewer or Drain End                 | FE-5254.1    |
| Off Premises Structures End                   | FE-5255.1    |
| Off Premises Structures End                   | FE-5255.2    |
| Loss Assessment End                           | FE-5256.1    |
| Nurses Professional Liability End             | FE-5257      |
| Nurses Professional Liability End             | FE-5257.1    |
| Special Limits End                            | FE-5258      |
| ACV on Specified Structures End               | FE-5260      |
| Additional Insured End (Home-Condo Assoc)     | FE -5262     |
| Additional Insured Special Events End         | FE-5263      |
| Additional Insured End                        | FE-5267      |
| Child Care Liability End                      | FE-5268.1    |
| Windstorm or Hail Ded End                     | FE-5269.1    |
| Theft End (Newly Constructed Dwelling)        | FE-5272      |
| Policy End                                    | FE-5320      |
| Fungus-Mold Exclusion End                     | FE-5398      |
| Roof Surface Losses – ACV End                 | FE-5442      |
| Motor Vehicle End                             | FE-5452      |
| Amendatory Debris Removal End                 | FE-5480      |
| Back-up of Sewer or Drain End                 | FE-5706.3    |
| Mandatory Reporting End                       | FE-5801      |
| Telecommuter Coverage                         | FE-5831      |
| Earthquake & Volcanic Explosion End           | FE-7300.4    |
| Earthquake & Volcanic Explosion End           | FE-7301.4    |
| Contractors Interest End                      | FE-7302.1    |
| Inflation Coverage Deletion End               | FE-7303.1    |
| Blank End                                     | FE-7315.1    |
| Dwelling Under Construction End               | FE-7342.3    |
| Change & Attaching Clause End                 | FE-7417.1    |
| Exclusion End                                 | FE-7424.1    |
| Waterbed Liability End                        | FE-7448.1    |
| Rented Personal Property End                  | FE-7453      |
| Personal Injury End                           | FE-7468.3    |
| Personal Injury End                           | FE-7468.4    |
| Vacancy End                                   | FE-7470.1    |
| Fire Dept Service Charge Increase End (1K)    | FE-7473.1    |
| Fire Dept Service Charge Increase End (1.5K)  | FE-7474.1    |
| Fire Dept Service Charge Increase End (2K)    | FE-7475.1    |
| Products & Completed Operations Exclusion End | FE-7485.1    |
| Acts, Errors & Omissions Exclusion End        | FE-7486      |
| Building Materials Theft End                  | FE-7531      |



|   |           |
|---|-----------|
| Joint Ownership End                             | FE-7566.1 |
| Joint Ownership End                             | FE-7566   |
| Adult Family Home Coverage End                  | FE-7766.1 |
| Adult Family Home Coverage End                  | FE-7766   |
| Exclusion of Cosmetic Loss to Metal Roof (Hail) | FE 8706.1 |
| C Declarations Page                             | FE-7001.6 |

### **Complaints**

The examiners reviewed the following for compliance with statutory requirements and contractual obligations:

- Ninety-eight (98) Division of Insurance complaint files from a population of ninety-eight (98); and,
- Fifty (50) consumer complaint files submitted directly to State Farm Fire from a population of 107.

### **Terminated Producers**

The examiners reviewed the following for compliance with statutory requirements and contractual obligations:

- Fifty (50) terminated producer files from a population of 314.

### **Rates**

The examiners reviewed copies of the rate filings provided by State Farm Fire applicable to policies written or renewed during the period of January 1, 2012 through December 31, 2012. The examiners reviewed the rates charged in the sample of homeowner's new business and renewal files to verify compliance with the rate filings submitted to the Division as the rates being used during the examination period.

### **New Business Applications and Renewals**

The examiners reviewed the following samples for compliance with statutory requirements and contractual obligations:

- One hundred (100) new business application files from a population of 20,751.
- One hundred (100) renewal policy files from a population of 253,017

### **Cancellations, Non-Renewals, Declinations and Non-Payment Cancellations**

The examiners reviewed the following samples for compliance with statutory requirements and contractual obligations:

- One hundred (100) cancellation files from a population of 18,256;
- One hundred (100) non-renewed policy files from a population of 1,388;
- One hundred (100) declined files from a population of 313; and,
- One hundred (100) non-payment cancellation files from a population of 1,702.

**Claims**

The examiners reviewed the following samples for compliance with statutory requirements and contractual obligations:

- Ninety-two (92) paid claims from a population of ninety-two (92) where the total amount paid on the claims exceeded the Coverage A policy limits for the policy;
- One hundred (100) paid claims from a population of 19,887 (after removal of the ninety-two (92) claims noted above) claims received during the examination period; and
- One hundred (100) closed without payment claims from a population of 3,669 received during the examination period.

**EXAMINATION REPORT SUMMARY**

The examination did not result in any issues which exceeded the threshold for being included in this report.

A copy of the Market Conduct Report, if adopted pursuant to § 10-1-205(3)(a), C.R.S., can be obtained upon request from the Division.

Results of previous market conduct examinations, if any, are available on the Division's website at [DORA Division of Insurance](#) or by contacting the Division.

**EXAMINATION REPORT SUBMISSION**

**State Market Conduct Examiner**

**Jeffory A. Olson, CIE, MCM, FLMI, AIRC, ALHC  
Examiner-in-Charge**

**and**

**Independent Contract Examiners with  
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Lead On-Site Examiner**

**Jay Matthew Alley, JD**

**Edward M. Garrison, MCM**

**Submit this report on this 6<sup>th</sup> day of May 2013 to:**

**The Colorado Division of Insurance  
1560 Broadway, Suite 850  
Denver, Colorado 80202**